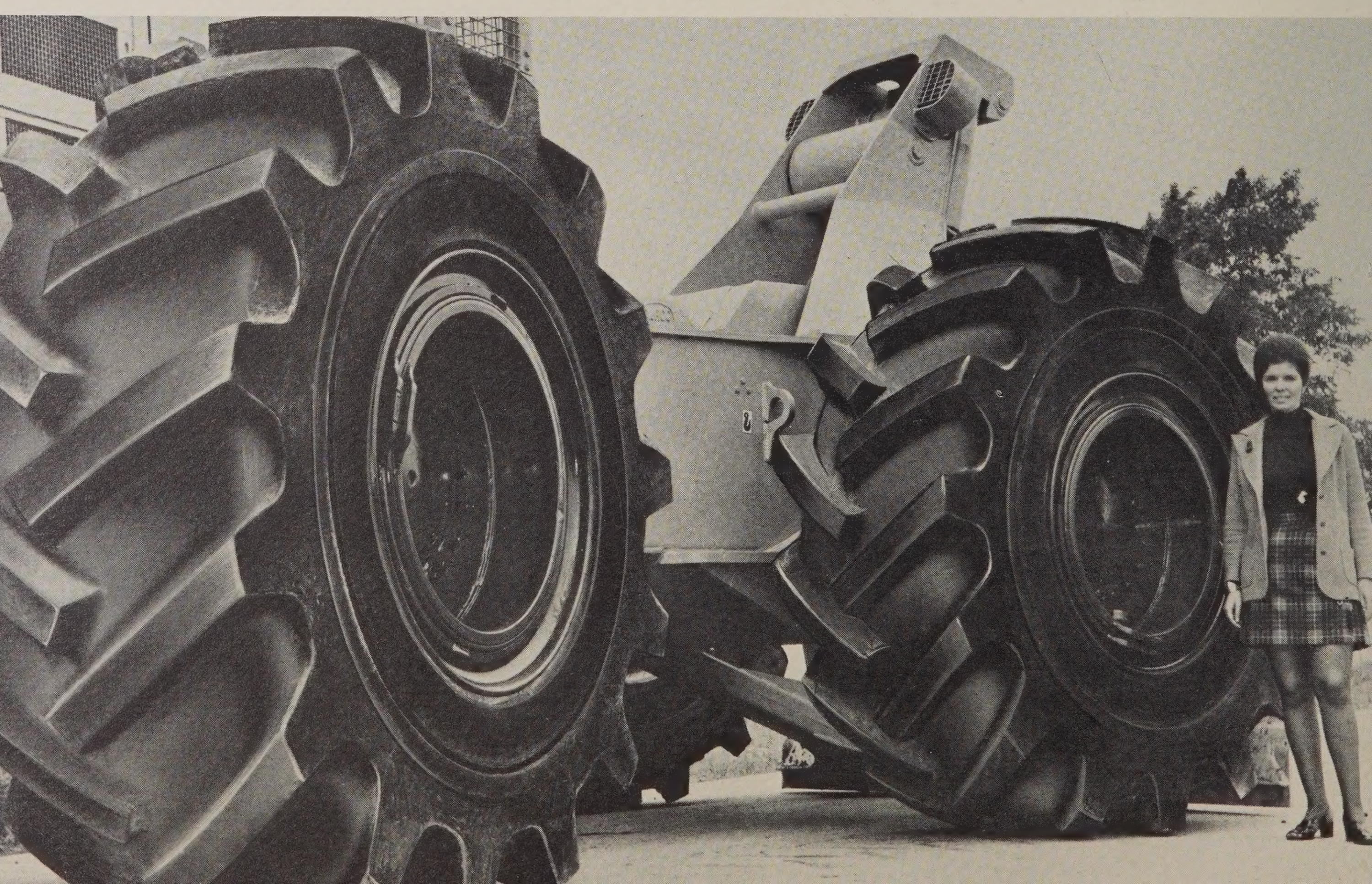
United Tire & Rubber Co. Limited
Annual Report 1972

Five Year Summary

	Year ended December 31, 1972	Eleven months ended December 31, 1971	Years ended January 31		
			1971	1970	1969
Sales	$16,382,295	$15,949,150	$14,951,096	$12,255,851	$9,399,709
Cost of sales and expenses					
Cost of sales, operating and administrative expenses before undernoted items:	15,874,647	14,536,175	13,976,559	11,472,634	8,850,740
Depreciation	618,877	301,659	193,349	169,423	169,108
Interest on long-term debt	273,171	180,584	110,424	55,292	40,842
Other interest	132,076	117,459	142,657	126,830	62,646
Share issue expense	77,974	—	—	—	—
	16,976,745	15,135,877	14,422,989	11,824,179	9,123,336
Earnings (loss) before income taxes and extraordinary item	(594,450)	813,273	528,107	431,672	276,373
Income taxes (recoverable)	(134,884)	381,002	264,608	182,438	114,732
Earnings (loss) before extraordinary item	(459,566)	432,271	263,499	249,234	161,641
Extraordinary item					
Pre-production expenses written-off	806,842	—	—	—	—
Net earnings (loss)	($ 1,266,408)	$ 432,271	$ 263,499	$ 249,234	$ 161,641

These figures include the operating results of a predecessor partnership.



To the Shareholders

Consolidated sales for the year ended December 31, 1972 were $16,382,295. The consolidated loss for the year before extraordinary item was $459,566, or 18¢ per share, and after an extraordinary write-off of preproduction expenses totalling $806,842, the consolidated loss for the year was $1,266,408, or 51¢ per share.

No meaningful comparison can be made with the prior fiscal year because it consisted of only the four months ended December 31, 1971, which preceded both the company's public offering of its shares and the operation of its tire manufacturing subsidiary. These comparative figures are, however, included in this annual report.

It may be noted that, as set out in the 5 year summary included in this report, consolidated sales for the eleven months ended December 31, 1971, were $15,949,150, and the consolidated profit for the eleven months was $432,271, or 21¢ per share.

The results of the past year have been a disappointment to the company. The loss interrupted a long established trend of continuous growth in sales and profits. It is appropriate to review the background against which the loss was incurred.

The major portion of the loss can be attributed to the delay in getting the plant on stream and the cost of extensive modifications required at the Cobourg tire manufacturing plant. Although management was aware of the difficulties in starting up a new tire manufacturing facility, they believed that the operations would be profitable by the fall of 1972. These expectations proved to be optimistic. The problems were, in the main, brought about by ineffective management personnel hired to operate the factory, delays in receiving machinery, substantial capital overruns for fixed assets, difficulty in training a completely inexperienced labour force, and errors in plant engineering.

A major plan was effected to rectify the problems. It included hiring a vigorous and capable tire manufacturing management group. A program was undertaken to train and upgrade the work force. A concentrated effort was initiated to correct plant layout, material handling and engineering errors in order to increase the capacity and efficiency of the plant.

In addition to the measures taken at the Cobourg plant, the restructuring and tightening of all of the company's divisions are expected to eliminate many of the factors which contributed to last year's loss. Steps have been taken to monitor more closely the performance and profitability of all the branches and appropriate measures have been applied in all areas of the company's operations to reduce costs and improve profit margins.

As a result, management believes that despite the 1972 results, the company is basically in a sounder position and better equipped to produce profits. With the demand for the company's product continuing strong, the prospects for the current year appear encouraging.

Consolidated sales for the company and its subsidiaries set a record in the first quarter of 1973. Sales for the three months ended March 31, 1973 were $4,222,127 compared to $3,318,275 for the same period in 1972, an increase of 27%. The Cobourg plant is now operating profitably and the company has shown a consolidated profit of $86,317 for the first quarter.

The 1972 loss impaired the company's working capital and steps have had to be taken to improve it.

The General Adjustment Assistance Board of the Government of Canada has agreed, subject to certain conditions, to insure 90% of a $3,000,000 ten-year loan. The loan will be placed with private institutions on terms presently being negotiated.

One of the conditions of the loan is that the company must increase its equity capital by at least $1,000 000. The directors have decided to ask the shareholders at the time of the annual meeting to authorize the creation of $1,500,000 of convertible preference shares, the terms of which will be set out in the information circular soon to be forwarded to shareholders. These shares will be offered to all shareholders of the company. It is expected that the formal offer

will be mailed to shareholders sometime in June, 1973. Arrangements are being made for any shares not subscribed for by shareholders to be taken up by several institutions.

Management believes that the proposed financing will be adequate to accommodate current cash flow projections and the capital expenditure program for the foreseeable future.

Real progress is being made in all aspects of the company's business. Experienced senior management personnel have been retained at the highest administrative and financial levels of the company, as well as in senior managerial and supervisory capacities at the Cobourg facility. Production at the plant has become far more reliable and is expected to increase regularly with a concomitant improvement in product quality, and a reduction in labour costs. The company's marketing strategies are effective and should be reflected in the 1973 sales and profits as they are reported quarterly. The completion of the proposed financing will relieve the financial strain under which the company has been operating.

There are still a number of areas where change and refinement are required but management feels confident that it can cope with these, and that as a result of the steps that have been taken, the company will operate profitably in 1973.

In concluding, we wish to express our deep appreciation to our employees, to our valued customers, to our many suppliers, and to financial institutions who have extended their loyal support to the company during a most trying year.

Robert Scolnick

Robert Scolnick
Chairman of the Board

Charles Sherkin

Charles Sherkin
President

May 16, 1973

Consolidated Statement of Earnings

For the year ended December 31, 1972 (with comparative figures for the four months ended December 31, 1971)

	1972	1971
SALES	$16,382,295	$5,712,916
Cost of sales and expenses		
Cost of sales, operating and administrative expenses before undernoted items:	15,874,647	5,174,193
Depreciation (note 4)	618,877	108,389
Interest on long-term debt	273,171	88,093
Other interest	132,076	35,684
Share issue expense	77,974	—
	16,976,745	5,406,359
Earnings (loss) before income taxes and extraordinary item	(594,450)	306,557
Income taxes (recoverable)	(134,884)	135,280
Earnings (loss) before extraordinary item	(459,566)	171,277
Extraordinary item		
Pre-production expenses written-off (note 2)	806,842	—
Net earnings (loss)	($ 1,266,408)	$ 171,277
Earnings (loss) per share before extraordinary item	($.18)	$.08
Earnings (loss) per share	($.51)	$.08
Number of shares outstanding	2,500,000	2,100,000

Consolidated Statement of Retained Earnings

For the year ended December 31, 1972 (with comparative figures for the four months ended December 31, 1971)

	1972	1971
Balance, beginning of year	$ 1,325,620	$1,399,697
Add: Net earnings (loss) for year	(1,266,408)	171,277
	59,212	1,570,974
Less: Goodwill written-off	—	145,354
Tax on 1971 undistributed income	—	15,000
Dividend out of 1971 tax paid undistributed income	—	85,000
	—	245,354
Balance, end of year	$ 59,212	$1,325,620

Consolidated Balance Sheet

As at December 31, 1972 (with comparative figures as at December 31, 1971)

ASSETS

	1972	1971
Current assets		
Accounts receivable (note 3)	$ 2,354,102	$2,321,081
Sales tax, duty rebates and other claims receivable (note 3)	394,229	741,258
Marketable securities, at cost which approximates market	12,012	12,012
Income taxes recoverable	213,575	—
Inventory, at lower of cost and net realizable value (note 3)	3,524,219	3,044,648
Prepaid expenses and deposits	191,628	181,325
	6,689,765	6,300,324
Deferred assets		
Deferred finance charges, less current portion	79,378	87,213
Advance payments on equipment purchases	8,124	54,492
Pre-production expenses (note 2)	—	346,991
	87,502	488,696
Fixed assets (notes 5, 6, 7 and 14)		
Land, at cost	3,950	—
Building, at cost	76,158	—
Plant machinery and equipment, at cost	6,201,750	3,216,993
Office furniture and equipment, at cost	113,338	73,497
Automobiles and trucks, at cost	142,225	4,021
Buildings on leased land, at cost	176,213	176,213
Leasehold improvements, at cost	397,435	312,220
	7,111,069	3,782,944
Less: Accumulated depreciation (note 4)	1,865,779	1,247,692
	5,245,290	2,535,252
	$12,022,557	$9,324,272

On Behalf of the Board

Robert Scolnick, *Director*

Charles Sherkin, *Director*

LIABILITIES

	1972	1971
Current liabilities		
Bank indebtedness (note 3)	$ 2,140,972	$ 926,320
Accounts payable and accrued liabilities	4,002,343	3,669,049
Income taxes payable	—	301,157
Current portion of long-term debt	1,322,233	610,467
	7,465,548	5,506,993
Long-term debt		
9% debenture (note 5)	291,262	—
9½% first mortgage bonds	—	112,500
9% series A debentures (note 6)	920,000	1,040,000
Chattel mortgages and finance contracts (note 7)	2,066,568	997,514
Note payable (note 8)	227,500	669,912
	3,505,330	2,819,926
Less: Current portion	1,322,233	610,467
	2,183,097	2,209,459
Deferred income taxes (note 9)	221,500	257,000

SHAREHOLDERS' EQUITY

	1972	1971
Capital stock (note 10)		
Authorized		
4,000,000 common shares, without par value		
Issued		
2,500,000 common shares	2,093,200	25,200
Retained earnings	59,212	1,325,620
	2,152,412	1,350,820
	$12,022,557	$9,324,272

The accompanying notes are an integral part of the consolidated financial statements.

Consolidated Statement of Source and Use of Funds

For the year ended December 31, 1972 (with comparative figures for the four months ended December 31, 1971)

	1972	1971
Source of funds		
Operations		
Net earnings (loss) for year	($ 1,266,408)	$ 171,277
Charges not requiring cash outlay:		
Depreciation	618,877	108,389
Deferred income taxes	(35,500)	(34,000)
Pre-production expenses incurred in previous years	346,991	—
Total Funds from Operations	(336,040)	245,666
Other		
Reduction of deferred finance charges	7,835	—
Reduction of advance payments on equipment purchases	46,368	—
Issue of 9% debenture	291,262	—
Increase in chattel mortgages and finance contracts	1,069,054	523,697
Increase in notes payable	—	181,084
Issue of common shares	2,068,000	—
	3,146,479	950,447
Use of funds		
Increase in deferred finance charges, less current portion	—	30,292
Advance payments on equipment purchases	—	54,492
Pre-production expenses	—	166,539
Purchase of fixed assets	3,328,915	927,864
Reduction of 9½% first mortgage bonds	112,500	12,500
Reduction of 9% series A debentures	120,000	60,000
Reduction of notes payable	442,412	—
Increase in current portion of long-term debt	711,766	227,869
Dividend to shareholders	—	100,000
	4,715,593	1,579,556
Decrease in working capital	($ 1,569,114)	($629,109)
Working capital deficit, end of year	($ 775,783)	$ 793,331
Working capital, beginning of year	793,331	1,422,440
Decrease in working capital	($ 1,569,114)	($ 629,109)

Notes to the Consolidated Financial Statements

As at December 31, 1972

1. Principles of consolidation

The consolidated statements include the accounts of United Tire & Rubber Mfg. (Toronto) Limited and S.A.S. Auto Leasing Limited, both wholly-owned subsidiaries.

2. Accounting principles

The statement of earnings for the company's wholly-owned subsidiary, United Tire & Rubber Mfg. (Toronto) Limited, includes sales and related expenses from the date of achievement of substantial production, August 1, 1972 to December 31, 1972. Sales and related expenses incurred up to July 31, 1972 have been treated as pre-production expenses.

In 1971 this subsidiary capitalized pre-production expenses with the intention of amortizing them over a three year period commencing in the month following the achievement of substantial production. During the year this subsidiary changed its policy and wrote off all pre-production expenses incurred during 1971 and for the seven months ended July 31, 1972 which totalled $806,842. Had the policy adopted in 1971 been continued the loss for the year would have been reduced by $694,790.

3. Bank indebtedness

The bank indebtedness includes the following:

(i) A current bank loan to the company in the amount of $1,400,000 secured by a $2,000,000 7½% demand debenture containing a first fixed and specific charge on all of the company's present and future book debts and all inventory.

(ii) A current bank loan to a wholly-owned subsidiary, United Tire & Rubber Mfg. (Toronto) Limited, in the amount of $450,000 secured by a registered general assignment of book debts and by a pledge of inventory under Section 88 of the Bank Act.

4. Depreciation

The company depreciates its fixed assets on a straight-line basis at the following annual rates:

Building	5%
Plant machinery and equipment	
—Molds, drums, warehouse and technical equipment	20%
—Other machinery and equipment	10%
Office furniture and equipment	20%
Automobiles and trucks	Based on fair market value
Buildings on leased land	Over term of lease
Leasehold improvements	Over term of lease

The company's wholly-owned subsidiary, United Tire & Rubber Mfg. (Toronto) Limited commenced depreciating its fixed assets on August 1, 1972. (note 2)

5. 9% Debenture

The company's wholly-owned subsidiary, United Tire & Rubber Mfg. (Toronto) Limited, has issued to the Ontario Development Corporation a debenture secured by a fixed mortgage on all tools, machinery, equipment and chattels now owned and hereafter acquired, as well as a floating charge on all the subsidiary's undertaking, property and assets, both present and future. This debenture is payable $4,370 monthly, including principal and interest at the rate of 9% per annum and matures February 15, 1980.

This debenture is currently in default due to the fact that the monthly payments are in arrears. To date no action has been taken by the Ontario Development Corporation.

The Ontario Development Corporation has agreed to advance, subject to certain conditions, an additional $100,000 to the subsidiary to be secured under the above debenture. This advance is to be interest free and forgiveable as to 10% on the first day of each of the second through sixth years and the remaining 50% on the first day of the seventh year, provided that the subsidiary, at all times prior to each of the dates upon which payment is to be forgiven, has operated its business in a manner satisfactory to the lender. As at December 31, 1972 and to date, no advances have been made under this section of the debenture. The company intends to request these funds during 1973.

6. 9% Series A debentures

These debentures are secured by a floating charge on the undertaking, property and assets of the company. The company has outstanding $920,000 of 9% series A debentures repayable as follows: (note 3)

Principal Amount	Expiry Date	Annual Repayment
$325,000	June 1, 1979	$ 50,000
595,000	June 1, 1981	70,000
$920,000		$120,000

7. Chattel mortgages and finance contracts

These obligations are secured by plant machinery and equipment, bear interest at an average rate of approximately 9½% per annum, and are repayable as follows:

1973	$1,132,082
1974	753,486
1975	115,372
1976	61,128
1977	4,500
	$2,066,568

8. Note payable

This consists of an unsecured note in the amount of $227,500 bearing interest at the rate of 8% per annum and repayable $35,000 annually until maturity, May 30, 1979.

9. Deferred income taxes

For income tax purposes, the company has claimed capital cost allowances and other deductions which are in excess of the depreciation and other charges recorded in the accounts. The resulting deferred income taxes have been provided for in the accounts and may become payable in years when the depreciation and other charges recorded in the accounts are in excess of capital cost allowances and other deductions.

Notes to the Consolidated Financial Statements (continued)

As at December 31, 1972

10. Capital stock

On April 13, 1972, the company obtained articles of amendment

(i) Subdividing the 25,200 issued common shares without par value into 2,100,000 issued common shares without par value.

(ii) Reclassifying the existing unissued 815,000 preference shares into 815,000 common shares without par value.

(iii) Creating an additional 1,010,200 common shares without par value.

(iv) Declaring that the authorized capital of the company (including the existing unissued 74,800 common shares without par value) consists of 4,000,000 common shares without par value.

During the year the company issued 400,000 common shares for $2,068,000 cash.

11. Statutory information

The aggregate direct remuneration paid during the year by the company to directors and senior officers of the company as defined by the Ontario Business Corporations Act was $191,621.

The total interest paid during the year amounted to $445,585 as follows:

Interest on long-term debt	$301,243
Other interest	144,342
	$445,585

12. Leases

The minimum rentals payable (exclusive of taxes, insurance and other occupancy charges) under long-term leases in effect as at December 31, 1972, for head office, branch and plant locations are as follows:

1973	$ 329,000
1974 to 1977	1,114,000
1978 to 1982	1,096,000
1983 to 1991	771,000
	$3,310,000

The annual rental obligations under lease contracts for vehicles and equipment amount to approximately $315,000.

13. Income taxes

The company's wholly-owned subsidiary, United Tire & Rubber Mfg. (Toronto) Limited has incurred losses for income tax purposes amounting to $2,163,384 which are available to reduce taxable income in future years as follows:

To December 31, 1976	$ 518,098
To December 31, 1977	1,645,286
	$2,163,384

14. Events subsequent to balance sheet date

The company's wholly-owned subsidiary, United Tire & Rubber Mfg. (Toronto) Limited, has purchased or made commitments to purchase additional fixed assets totalling approximately $600,000.

The company has received an undertaking, subject to certain conditions, from the General Adjustment Assistance Board (GAAP) to insure to the extent of 90% a loan in the amount of $3,000,000. The loan is to be secured by a fixed charge on the fixed assets of the company and its wholly-owned subsidiary, United Tire & Rubber Mfg. (Toronto) Limited, subject to chattel mortgages not to exceed $556,100, and by a floating charge on all of their assets subject to a prior charge by the company's bankers. (note 3)

The company is presently negotiating for this loan and for additional equity financing.

15. Comparative figures

The figures for the previous year have been reclassified where necessary to conform with the current year's presentation.

Auditors' Report

To the Shareholders of
United Tire & Rubber Co. Limited

We have examined the consolidated balance sheet of United Tire & Rubber Co. Limited and its subsidiary companies as at December 31, 1972, and the consolidated statements of earnings, retained earnings and source and use of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the companies as at December 31, 1972, and the results of their operations and the source and use of their funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year, except for the change referred to in note 2 with which change we concur.

Toronto, Canada
April 9, 1973

Wm. Eisenberg & Co.
Chartered Accountants

Officers

Robert Scolnick
Chairman of the Board and
Chief Executive Officer

Charles Sherkin
President

Theodore Rhenius
Vice-President, Finance

James Dow
Vice President, Tire Manufacturing

Joseph Frieberg
Secretary

Board of Directors

Donald Carr, Q.C.

James Dow

Joseph Frieberg

Robert Scolnick

Charles Sherkin

Donald Wilkins

Transfer Agent and Registrar

Guaranty Trust Company of Canada

Auditors

Wm. Eisenberg & Co.

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